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C O N F I D E N T I A L SECTION 01 OF 03 NEW DELHI 008535

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SUBJECT: THE UPA DESCENDS DEEPER INTO THE VOLCKER REPORT
QUAGMIRE - NATWAR VEERS TO THE LEFT

REF: A. NEW DELHI 8507

1B. NEW DELHI 8431

Classified By: DCM Robert Blake, Jr. for Reasons 1.4 (B, D)

11. (C) Summary: The United Progressive Alliance (UPA) government continued to descend into the quagmire created by the release of the Volcker Report (reftels), while its embattled Foreign Minister has veered to the left in a desperate attempt to win support from the Left Front (LF). The UPA has responded to the allegations by instituting "investigations," and can now remove Natwar as Foreign Minister and shunt him into a domestic portfolio where he can not do so much damage. The BJP/NDA are gleeful that they can now score points against Congress and will be unrelenting in their criticism in the media and on the floor of Parliament. Under attack from all sides, the UPA will find it even more difficult to move key legislation through Parliament, and will likely determine that it must downplay the US/India initiative for the time being. This could make it difficult for the GOI to remain in the US column next time the Iran nuclear program comes up for a vote in the IAEA. End Summary.

The UPA Responds

12. (U) The crisis caused by the release of the Volcker Report (reftels) continued to deepen throughout the weekend of November 5-6, as Indian media conducted a "death watch," at strategic locations throughout New Delhi, waiting to see whether Natwar Singh would step down as Foreign Minister. The Congress "core group" (PM Manmohan Singh, Congress President Sonia Gandhi, Home Minister Shivraj Patil, Defense Minister Pranab Mukherjee, HRD Minister Arjun Singh, and Mrs. Gandhi's Political Secretary Ahmed Patel, plus Finance Minister P. Chidambaram and Law Minister H.R. Bhardwaj) met at the PM's residence to chalk out a response. Chidambaram and Science Minister Kapil Sibal, the Cabinet's two most prominent lawyers, determined there was sufficient evidence against Natwar to warrant further investigation. On the night of November 6, the UPA appointed retired UN diplomat Virendra Dayal as a "special envoy" to "liaise" with the UN and "gather relevant materials...regarding the involvement of Indian entities and individuals" in the food-for-oil scandal. Dayal will have "the full power and authority of the Government," and serve initially for three months.

13. (U) The UPA will also dispatch a "polite" letter to UN Secretary General Kofi Annan, purportedly requesting the UN

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to treat Congress "differently" than individuals named in the report, and to provide the evidence the Commission used to name the party as a non-contractual beneficiary. The UPA also plans to establish a judicial committee to examine the role of the Swiss company Masefeld AG and the Indian firm Hamdan Exports in the scandal and determine whether they acted independently or at someone's behest. Andleeb Sehgal, the owner of Hamdan Exports and a close friend of Natwar's son, Jagat Singh, continued to elude government investigators, who searched his residence and office. They wanted to interrogate him regarding his dealings with the Saddam government. In an impromptu news conference, Sehgal denied any role in the affair, stating that "I have had no business dealings with either the Congress party or Natwar Singh or his son."

Bio Note

14. (U) Virendra Dayal is a distinguished civil servant with a spotless record of public service. He was inducted into the Indian Administrative Service (IAS) in 1958. He resigned from the IAS in 1965 to join the UN, serving there until his retirement at the rank of Undersecretary in 1992. After leaving the UN, Dayal served two terms as head of the National Human Rights Commission. He was not the GOI's first choice. The UPA approached at least one retired Supreme Court Justice, who begged off, citing "poor health."

Natwar Holds Firm

15. (U) In a lengthy NDTV interview on November 5, Natwar

refused to step aside, declaring repeatedly that he and Congress were innocent of wrongdoing. Maintaining that the evidence was based on the "records of the current Iraqi government, which has no credibility in the world," Natwar insisted that the allegations were "outrageous and completely false" and denied purchasing oil from or paying kickbacks to the Saddam regime. Natwar also claimed that Sonia Gandhi and the PM had "full confidence in my innocence." Declaring that Mrs. Gandhi was angry that the Report "sullied the names of the party and its members," Natwar emphasized that he served at the behest of the Prime Minister, and the BJP "would not decide who the Indian Foreign Minister will be."

And Becomes More Shrill

16. (SBU) In what appeared to be an attempt to enlist the support of the Left Front, Natwar also turned up the rhetorical heat regarding the controversial IAEA vote and expressed sympathy for the LF. In a November 6 interview on NDTV, he emphasized his close ties with the Communist leadership, that he has been "left of center" since his youth, and lamented the "disintegration of the Soviet Union" as "one of the tragedies of the 20th Century." Natwar went on to decry that "I am not anti-American,...I am pro-Indian. If any country launches a war on another country and calls it a humanitarian intervention, it is unacceptable." On the same day, while addressing the Confederation of Indian Industry (CII), Natwar stated that if the upcoming IAEA resolution on Iran's nuclear program was "more severe than the previous one," he would advise the government "to reverse its vote." He pointed out that India's September 24 vote "prevented Iran from being taken to the UNSC" and predicted that India would work to "thwart another move in this direction." Natwar emphasized that "Nothing will prevent us as a great country from raising our voice as we did when we were in opposition to what was done in Iraq," and "India and Africa should stand together so that no country or group of countries can take unilateral action to reduce countries to what has been done in Iraq." (To read excerpts of the interview go to:
www.indianexpress.com/full_story.php?content_id=81468)

And the BJP Turns the Screws

17. (U) The top BJP leadership spent the weekend criticizing Natwar and calling for his dismissal. BJP General Secretary Arun Jaitley played the lead role, insisting that there was sufficient evidence in the Volcker Report to indict Natwar on criminal charges under the Foreign Contribution Regulation Act (FCRA) which prohibits parties and individuals from accepting political contributions from foreign governments. Jaitley called on Natwar to quit, as his position is now "morally untenable" and his effectiveness in dealing with the UN "eroded." Insisting that the GOI should file criminal cases against everyone involved, Jaitley maintained that the Prime Minister should "decide whether he runs a government or merely occupies an office." Party President LK Advani confirmed that the BJP would formally request Natwar's dismissal, while Sushma Swaraj expressed surprise "that the PM has given a clean chit to Natwar Singh without studying the Volcker report."

While Congress Largely Abandons Him

18. (C) There was no evidence that the heavy-hitters in Congress were ready to come to Natwar's aid in his hour of need. The press speculated that most within Congress would not be unhappy to see Natwar go, as his legendary arrogance has come to haunt him. With the big names silent, the UPA second echelon mounted a weak defense. Chhatisgarh Congress leader Ajit Jogi made an "open challenge" to the Volcker Committee to produce its evidence. Andhra Pradesh Chief Minister Y.S. Rajesekhar Reddy condemned the "politically motivated" campaign of the BJP against Natwar, Railway Minister Lallu Prasad Yadav echoed Natwar, saying that the FM should not resign on the back of "baseless allegations," and DMK President M. Karunanidhi decried the BJP's calls for Natwar's resignation as mere "politics of confusion."

Comment - When and Not If

19. (C) Hardly anyone believes that Natwar will survive as Foreign Minister. The UPA appointment of a "special envoy" and a "judicial commission" are transparent face-saving measures, not the principled stand of a government convinced of its innocence. Party insiders have told the press that the evidence is too specific to dismiss and Congress will most likely remove Natwar while the GOI investigation proceeds. While Natwar is in deep trouble, he is unlikely to be dropped from the Cabinet, but merely shunted to a domestic portfolio where he will not have to deal with the UN and foreign government, most particularly the US.

¶10. (C) The Congress leadership has likely lost confidence in Natwar as Foreign Minister. His latest statements on the IAEA vote are an embarrassment to the GOI, which is engaged in a delicate balancing act requiring sophisticated diplomacy and does not find Natwar's rhetorical excesses helpful. While his position on the IAEA vote is partially an attempt to win LF support, it also likely reflects his personal views. The Left Parties were among the first to call for a GOI investigation of the Volcker Report allegations, however, and will likely distance themselves from Natwar. Proud of their relatively clean record on corruption, the Communists have always been quick to criticize Congress on that score.

¶11. (C) The LF and BJP/NDA have already scored points against the UPA over the IAEA affair and have put the UPA on the defensive regarding US/India relations. The Volcker Report has been a Godsend for the BJP, which was in desperate need of an issue to use against the UPA. Having been provided with a golden issue, the BJP will play it for all it is worth. With Congress on the ropes over the oil-for-food affairs, both the NDA and the LF can be expected to ramp up their criticism of the UPA, accusing it of allowing the US to dictate India's economic and foreign policy.

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